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UNCLAS SECTION 01 OF 02 NAIROBI 003826

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E.O. 12958: N/A
TAGS: KTEX ECON ETRD KE AGOA
SUBJECT: KENYA RESPONSE - TEXTILES AND APPAREL SECTOR: UPDATED STATISTICS AND PROJECTION OF FUTURE COMPETIVENESS

REF: A) STATE 146213 (8/8/05); B) NAIROBI 3072 (8/1/05)

¶1. In response to ref A), Embassy Nairobi offers the following baseline data on Kenya's textile and apparel production and employment. Total Kenyan industrial production in calendar year 2004 was USD 5.616 billion. Total textile and apparel production was USD 304.21 million in year 2004 and USD 182.28 million in the first half of ¶2005. Total textile and apparel share of Kenya's total imports in 2004 was 6% -- and also 6% in mid-year 2005. Total textile and apparel share of Kenya's exports in 2004 was 9% -- dropping to 4% in mid 2005. Total manufacturing employment in 2004 was 1,175,230. Total direct textile and apparel manufacturing employment was 30,000 in 2004.

¶2. Textile and apparel production plays a significant role in Kenya's economy. Kenya's modest total economic recovery of the last three years is in part due to Kenya's growing garment and apparel sector, and most of this latter growth can be traced to AGOA incentives. Since its inception in 2000, AGOA has led to the establishment of about 50 garment-making factories in Kenya, employing approximately 30,000 people directly and about another 200,000 indirectly. Presently Kenya has about 12 ginneries in operation, compared to only 7 that were in operation before 2001.

¶3. The Government of Kenya (GOK) has identified textiles and apparel as a growth sector. In fiscal year 2002/2003, the GOK removed value added taxes (VAT) on all ginning and textile manufacturing machinery, and removed as well duties on all supplies of taxable goods and services to cotton ginning factories.

¶4. According to many industry sources, the expiry of the Multi Fiber Agreement (MFA), allowing apparel and textile-exporting countries to adjust to the removal of developing country export quotas to the European and American markets, will decimate jobs in Kenya's apparel industry-dominated Export Processing Zones (EPZ). Several apparel companies have reported many lost orders due to high production costs in Kenya that cannot compete with China's very low cost of production and very large economies of scale. According to the Kenya Apparel Manufacturers and Exporters Association, over 11,000 jobs have already been lost, and seven major factories shut down. Several apparel companies have laid off more than 300 workers each.

¶5. The enormous market prospects presented by AGOA from 2000 and the African, Caribbean and Pacific - European Union (ACP-EU) Cotonou Agreement rekindled interest in the industry in the earlier years of this decade. Since Kenya qualified for AGOA, its exports to the U.S. expanded remarkably and so did investment. Total investment in this sector rose from KSh 1.2 billion to KSh 9.7 billion (a 41% increase) while jobs increased from about 26,000 in 2002 to 37,000 in 2003 (although they subsequently fell to 30,000 by the end of 2004). As of mid-decade, the sector has been exposed to foreign competition and an influx of imported used clothing, the collapse of the local cotton-processing industry, weak domestic economic activity -- which reduced demand for apparel, and quota restrictions in the U.S. market. The Tailors and Textile Workers Union has reported that some unscrupulous traders are importing textiles from China and Dubai duty-free, claiming they are from the Common Market for Eastern and Southern Africa (COMESA).

¶6. In May 2005, Kenyan manufacturers reported a reduction in orders from USD 39,982 in 2003 to USD 32,572. There are declines as well in exports as well as employment. To date, Kenya has not implemented any measures to limit imports of textiles and apparel from any particular country -- but is looking into ways of reducing second hand textile imports into Kenya to protect the local textile industry.

¶7. Industry sources report that garment manufacturers have

not reduced wages, despite the obvious financial pressures. In fact, most are apparently paying considerably more than the government-required minimum wage. However, manufacturers have sought support from the government to ensure that minimum wages are pegged to productivity, and that a review of the minimum wage is done in consultation with them. Both the government and the private sector are trying to identify additional measures to increase Kenya's competitiveness including reducing the number of licenses required for doing business in Kenya, reduction of the time required in processing an investor's license from 48 days to 21 days, and the transformation of the Investment Promotion Center to the Investment Promotion Authority to act as a one-stop shop, affecting anti-dumping rules, subsidies, and emergency tariffs. Other measures aimed at creating a friendly investment environment include research and development (such as improving cotton seeds and upgrading ginning technology). Kenya is supporting regional integration through bilateral and multilateral trade relationships such as COMESA and EAC, which should facilitate regional exports of apparel. A Cotton Bill currently in parliament is expected to introduce a regulatory framework to attract investments to the cotton sector. The GOK has announced plans to remove impediments at Kenya's ports and to upgrade its transportation and telecommunication systems. Also, most of Kenya's new clothing factories have been established within the Export Processing Zones (EPZs), which provide generous tax incentives, ready factory shells, access to superior infrastructure, and operational support.

¶8. All fabric and most accessories are currently imported, primarily from Asia. AGOA requires that by September 2007, for continued duty-free market access to the U.S, Kenyan apparel factories must source from either U.S. suppliers or from eligible African countries. Due to the stringent quality of U.S. buyers and large volumes involved, Kenyan textile mills are not able to produce the wide range of fabric and accessories required by the clothing factories at the right quality and price. Importing from other African countries is not feasible, since they too have excess demand. The fear of investors that they might have to relocate and put close to 30,000 jobs at risk in 37 EPZ factories is very real.

¶9. In August, the Pakistan Embassy in Kenya wrote to some investors mainly from Sri Lankan seeking a meeting to discuss possible relocation to Pakistan. The GOK officials shrugged off Pakistani's advances, saying it is part of a global competition to win Foreign Direct Investments (FDI) to help reshape their economic opportunities, which is what Kenyans are doing. Sri Lankan investors within EPZ, mainly investing in export of apparel through AGOA are experiencing difficulties with their imports mainly due to delay in clearing goods at the Mombasa port, delays in acquiring export visas and poor infrastructure which has affected their businesses, often resulting in cancellation of orders.

¶10. There is no revival in sight should the USD 250.8 million export market collapse, and some critics are already blaming the Kenyan government for not helping exporters diversify into the other 6,000 products eligible under AGOA. With China expected to totally dominate the textile and apparel industries as trade barriers fall, there is an attitude of resignation in Kenya's EPZ apparel industry - that of simply relying on AGOA for favorable trade terms until 2007 when Kenyan apparel manufacturers may be locked out of the U.S. market. In retrospect, business historians may severely fault African nations for using AGOA as a temporary "get rich quick" scheme for a few rather than use it as a tool as its creators intended - to buy entire industries and governments the time necessary to implement fundamental reforms that would benefit the many for the long term.

¶11. The GOK collects and reports textile and apparel employment data annually, and in addition, the GOK provides monthly data to the U.S. Customs Service on textile exports to the U.S. as required under AGOA. Reliable monthly employment data is unavailable since the GOK lacks the institutional capacity to collect such data; the statistics in this report came from industry source estimates, the GOK's Department of Industries (Ministry of Trade and Industry), and the Kenya Association of Manufacturers (KAM).

¶12. This cable was cleared by State Economic and USAID/Regional Economic Development (REDSO) sections at post. Best regards from Eastern Africa.

BELLAMY